

Reporting in tough times

Downturn, credit crunch, inflation (or stagflation), subprime and mortgage mess, mergers, acquisitions, delistings, energy prices, food crisis, long-term sustainability vs. quarterly guidance, corporate responsibility vs. financial irresponsibility... Subsequent or parallel to the issues listed above, consider e.g. *“the plethora of restatements (as) one of many factors making it difficult for the average investor to understand reports,”* as Robert Pozen, chair of SEC’s Advisory Committee on Improving Financial Reporting, wrote it in the Financial Times (*Accountancy* column, June 19, 2008).

With such a string of news, events and trends, the task of investor relations officers, corporate communication or media managers, and report makers looks more daunting than ever. More stakeholders raise more **questions**. And the reports’ audience must find **answers**. More selfishly, it doesn’t make e.com’s independent research business of scoring, rating and ranking reports easier. We took the plunge. The results are in this ***Annual Report on Annual Reports 2008***.

Let us face it: rating and ranking all reports from all listed companies (about 35,000) would be mission impossible. Our goal is to have a representative survey more than a fully comprehensive one that would anyway be unmanageable. After all, why have indices been invented? That said, and without boasting, selecting 1,500 companies and rating more than 500 reports is still an honorable performance. By comparison, an average analyst at a company (producing a very average report, by the way –no “lynching” intended) covers between five and ten stocks (Yes, we know that a stock is not a report.)

To the ones asking us why we simply don’t go for taking a Fortune or FT-something list and rating it, the answer is plain simple: as far as reporting is concerned (and if it was only about this!), **bigger** (companies) does **not** necessarily mean **better** (reports). Some among the largest companies have regularly stood among the laziest -or poorest- annual reporters (see below –all meanings). Some stand in our ranking not necessarily because they stand out as reports but because they are industry/market leaders and thus unavoidable. Yet, as our lists and picks show, small sometimes means more beautiful (reports).

Let's put it clearly: for time and timing reasons the ReportWatch team didn't want to lose too much energy –reviewing churned-out 10-Ks produced only for compliance and not caring about readers (and shareholders, lest we forget) is pointless; didn't go for fault-finding at some–how relevant was it to compare a few aerospace giants playing in war games; and, for various or obvious reasons, didn't write extra problem pages -who needs more?- about Alcatel-Lucent or Lehman Brothers, Halliburton or Société Générale. Perhaps smelling rats, Freddie and Fannie have never been... covered in our survey. Some (names withheld by kindness) have only been rescued “thanks” to a competitor to whom they could be compared! In other words, they are there even though their report hardly qualifies as an “annual report”. That said, we have certainly overlooked a number of good companies and great reports. We ask these ones to forgive us for that.

While some understood our viewpoint and liked the renewed format, many of our readers and report users complained about the lack of a formal **ranking** in last year's issue. They will be pleased (well, at least some!) to find one again, in addition to a report **rating** which is based on e.com's **scoring** system (based on 50 report items) cross-checked both internally and externally with a rating panel.

Oh, in case some wouldn't notice, after having put the financial sector in a separate list (in 2006), we have decided to bring it back into the broader (and more real?) reporting world. From a report viewpoint, even though their business is different, and even more in the wake of the largely self-created turmoil, financial institutions' reports should be treated like “ordinary” companies' ones. Isn't the case for higher reporting requirements on the agenda in Basel and other “consensus” places, anyway?

This year's survey is also **more competitive** than ever: from a top 100 ten years ago, 500 reports are now ranked. Moreover, every report ranked directs to a report that can be compared to. With our multifaceted approach, and due to raising reporting standards across the board, the ranking exercise is increasingly difficult and competition is tougher. To give but one example, there is only a ten-point difference (out of 100 marks in total) between reports ranked in the region of 50 and those in the region of 200. The rating step is used to correct, upgrade or mark down, but deciding who is a cut above is not a cakewalk, and may always be argued. One or more **assets** and **liabilities** have been identified for all reports watched. We publish them for 200 of the reports rated.

“When the going gets tough, the tough get going”, sang Billy Ocean. The next lines of the chorus also suitably apply to today’s reporting challenge: “the tough {report makers} get ready” or (alternate verse) “get rough”... Should tough times -and often consequent poor results- mean rough reports? Good news first: top annuals can be originated from any industry. See how so-called “heavy”, “dirty” or fiercely contested businesses sort it out. Sometimes for very different reasons, and often in various styles and tone, our top-rated annuals do not all come from companies pleased to report strong or (really) improved results (e.g. Philips or PotashCorp); but also include ones reporting on stable sales and margin (Electrolux), or in difficult operating contexts (SAS, Autoliv, Stora Enso...). Ah, you may also spot a few financial institutions in the top 50. A further proof that some report makers are able to turn **bad business news** or a market **problem** into a reporting **opportunity**. Incidentally (or rather not), many of this year’s top performing annuals have topped our ranking for a few years. Still, a few surprises are in store, from beverages (all kinds) to construction, from services to mining, from France to Japan.

Other side of the coin. It is still baffling to report analysts to see how some market leaders (e.g. Microsoft), top brands (e.g. Apple), growing companies (e.g. Forest Laboratories) or industries (e.g. Vestas), or simply ones having to report good or better year results (a number of them) seem less and less committed to producing good annuals. Less good or worse than e.g. some coming from developing markets (e.g. CLP), some less known or less visible (e.g. Daiwa House), or even from some government-owned firms (e.g. Hydro-Québec), among others. An opportunity for us (and a relief for some) to remind that we assess the reports, and do not judge the companies.

In our continuing search for higher reporting standards, we hope that our survey can bring a contribution towards better reporting practices. Because, to paraphrase Robert Pozen’s words, and as the best reports prove it, the annual report remains a much-needed **beacon** for investors and other stakeholders in difficult times.

The Editor of the ***Annual Report on Annual Reports***.

Postscript 1 (surfing the survey):

For the convenience of our readers the ***Annual Report on Annual Reports 2008*** is divided into three books: Use our Reader’s guide to find your way.

Postscript 2 (just in case):

This survey has not been audited.

Postscript 3 (oh, really?):

The material included in this publication does not represent an advice or offer to buy, sell or trade the securities related to companies herein referred to.

